RUDMOSE & NOLLER ADVISORS, LLC

INSURANCE REGULATORY SERVICES

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July 16, 2004

James T. Odiorne
Deputy Commissioner
State of Washington
Office of the Insurance Commissioner
5000 Capitol Blvd.
Tumwater, WA 98501

Dear Mr. Odiorne:

We have performed an analyses of certain historical and prospective financial and other information related to a Form A Statement Regarding the Acquisition of Control of or Merger With a Domestic Insurer ("Form A") filed with the State of Washington, Office of Insurance Commissioner ("OIC') dated April 9, 2004 and filed by Occum Acquisition Corp., ("Occum"), White Mountains Insurance Group, Ltd. and White Mountains Re Group, Ltd. ("White Mountains") (collectively, "the Applicants"). The Applicants seek to acquire control of two Washington domestic insurers, Safeco Life Insurance Company and Safeco National Life Insurance Company (collectively, "the domiciliary insurers") in addition to other non-domiciliary insurers and non-insurer subsidiaries (collectively, "the Safeco entities") as set forth in the Form A. Our services have been limited to work described in your request for proposals dated April 16, 2004 and our proposal to you dated May 10, 2004.

In connection with our analysis of the Form A transaction, Rudmose & Noller Advisors, LLC ("RNA") obtained information with respect to financial, operational and regulatory aspects of the proposed acquisition of the Safeco entities by the Applicants. We had limited discussions with certain officers and management of both White Mountains and the Safeco entities. We obtained certain documents including historical annual statement filings, audited financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") and statutory accounting practices, un-audited GAAP financial statements, prospective financial information, the Stock Purchase Agreement and Exhibits, the Credit Agreement, the Transition Services Agreement, Minutes of the Special Meeting of the Board of Directors dated March 15, 2004 of the seller, analyses prepared by management, analyses prepared by advisors to the seller, and publicly available financial information.

Reliances and Limitations

The analysis of certain historical and prospective financial information was based on procedures approved by the OIC and performed by RNA. The OIC is responsible for the sufficiency of the procedures as well as drawing conclusions with respect to RNA's evaluation.

In completing this evaluation report, RNA relied on oral and written representations provided by directors, officers, and managerial employees of the Applicants and the Safeco entities and observations and analysis made by us during the course of our work.

Our work did not constitute an audit conducted in accordance with generally accepted auditing standards, or an examination or review in accordance with standards established by the AICPA. Accordingly, RNA does not express an opinion or any other form of assurance on the financial statements of the companies or any financial or other information, or operating and internal controls of the companies.

With respect to prospective financial information relative to the companies referenced throughout this report, we did not examine, compile, or apply agreed-upon procedures to such information, and we express no assurance of any kind on such information. There will usually be differences between estimated and actual effects, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievability of the expected results of the Form A transaction anticipated by the Applicants and the Safeco entities.

We make no representation regarding the sufficiency of our work either for purposes for which this report has been requested or for any other purpose. The sufficiency of the work we performed is solely the responsibility of the OIC, as are any decisions with respect to the Form A transaction. Had we been requested to perform additional work, additional matters might have come to our attention that would have been reported to you.

It is understood that this report is solely for the information of the OIC. Our findings may be included, in whole or in part, in the record upon which any regulatory determination may be made by the OIC, which RNA understands may be a public record. If the OIC chooses to name RNA in any report, the OIC should disclose that RNA is not responsible for the sufficiency of procedures for the purpose of the OIC's evaluation of the Form A transaction.

In addition to the foregoing, our report, or portions thereof, is not to be quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or other document without our prior written approval, which may require that we perform additional work.

We appreciate the opportunity to serve the OIC in conjunction with this engagement. Please let us know if you require clarification of any of the matters contained in our report, or need any further information.

Very truly yours,

Rudmose & Noller Advisors, LLC

Rudmose & Noller Advisors, LLC

Introduction

The State of Washington, Office of Insurance Commissioner ("OIC') is the primary regulatory agency for insurance in Washington. Among its duties, the OIC is responsible for the enforcement and administration of the State of Washington's insurance laws. On April 9, 2004, Occum Acquisition Corp., ("Occum"), White Mountains Insurance Group, Ltd. and White Mountains Re Group, Ltd. ("White Mountains") (collectively, "the Applicants") filed with the OIC a Form A Statement Regarding the Acquisition of Control of or Merger With a Domestic Insurer ("Form A") related to two Washington domestic insurers, Safeco Life Insurance Company and Safeco National Life Insurance Company (collectively, "the domiciliary insurers") in addition to other non-domiciliary insurers and non-insurer subsidiaries (collectively, "the Safeco entities") as set forth in the Form A. The non-insurer subsidiaries are engaged in the asset management, securities and transaction processing businesses. The Safeco entities are each a direct or indirect subsidiary of Safeco Corporation. The Commissioner of Insurance of the State of Washington ("the Commissioner") has the authority to approve or disapprove the transaction described in the Form A with regard to the domiciliary insurers.

Safeco Corporation determined in 2003 to divest its life and health operations to focus on its property/casualty operations and its potential earnings power during the continuing hard underwriting market. Additionally, Safeco Corporation believes that its competitors in the life insurance and asset management business have delivered superior results, and that there is no indication that this trend is expected to change. Safeco Corporation is a significant United States insurer with approximately $7.4 billion in revenue, $35.8 billion in assets and $5.0 billion in equity as of and for the year ended December 31, 2003 determined pursuant to accounting principles generally accepted in the United States of America ("GAAP.")

The acquirer, White Mountains, is part of a publicly traded Bermuda-domiciled financial services holding company focusing on property casualty insurance and reinsurance with $15.5 billion in assets, $825 million in debt and $3.2 billion in equity at March 31, 2004 determined pursuant to GAAP. To accomplish the purchase of the Safeco entities, the Applicants have arranged for a combination of debt and equity financing to affect the transaction.

The Commissioner engaged Rudmose & Noller Advisors, LLC ("RNA") to assist with the OIC's analysis of the proposed transaction. The following observations and evaluation are based on the procedures the Commissioner asked RNA to perform.

The Transaction

The Applicants have agreed to purchase the Safeco entities for approximately $1.35 billion subject to the adjustment of the June 30, 2004 statutory book value of the Safeco entities. The statutory book value will be adjusted to the extent the statutory book value is greater or less than $1.15 billion. Occum is a holding company formed for affecting the Form A transaction, and it's owned by an investor group (collectively, "the investors") led by White Mountains, Berkshire Hathaway Inc. ("Berkshire Hathaway") and Franklin Mutual Advisers, LLC ("Franklin"). The transaction will be financed by the investors through $1.065 billion in equity financing from proceeds of the issuance of Occum common shares by Occum. White Mountains and Berkshire Hathaway will each contribute $200 million; Franklin will contribute $125 million, and the remaining investors will invest an aggregate $540 million, but no equity investor other than White Mountains, Berkshire Hathaway and Franklin will own more than 10% of Occum.

White Mountains and Berkshire Hathaway each will own 18.8% of Occum, and Franklin will own 11.7% of Occum common shares. In conjunction with this transaction, White Mountains and Berkshire Hathaway will each receive warrants to purchase additional common shares of Occum which would increase the ownership by each to approximately 24% of Occum common shares and would decrease the ownership of Franklin to less than 10% of Occum common shares. Berkshire Hathaway, Franklin and John J. Byrne have filed disclaimers of affiliation with the Commissioner related to this transaction. John J. Byrne owns approximately 9.7% of White Mountains Insurance Group, Ltd. and was formerly its Chief Executive Officer and Chairman of its Board of Directors. According to the Form A, each will be a passive investor who has no intention or power to direct or cause the direction of management and policies of Occum. Washington Insurance Code pursuant to Title 48 RCW Chapter 31B.005(2) states that "control is presumed to exist if a person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent or more of the voting securities of any other person. This presumption may be rebutted by a showing that control does not exist in fact." According to Title 48 RCW Chapter 31B.025(11), the presumption is rebutted through the filing with the Commissioner a disclaimer of affiliation which must fully disclose all material relationships and bases for affiliation between the person and the insurer as well as the basis for disclaiming the affiliation. After a disclaimer has been filed, the insurer is relieved of any duty to register or report under this section that may arise out of the insurer's relationship with the person unless and until the Commissioner disallows the disclaimer. The Commissioner shall disallow the disclaimer only after furnishing all parties in interest with notice and opportunity to be heard and after making specific findings of fact to support the disallowance. Baker & Daniels has completed a legal review of the Form A transaction including a review of the above filed disclaimers of affiliation and concluded that such disclaimers were filed in compliance with Title 48 RCW Chapter 31B.025(11). We are not aware that the Commissioner intends to assert that the disclaimers filed in conjunction with the Form A transaction should be disallowed, and we make no such recommendation.

In addition to the equity financing, Occum has obtained a fully subscribed revolving credit facility administered by Bank of America, N.A. ("Bank of America") for up to $370 million. At closing, it is anticipated that Occum will borrow approximately $300 million to finance the purchase price and transaction-related costs. The revolving credit facility is arranged though a syndicate of lenders led and administered by Bank of America. The revolving credit facility will have a maturity date of five years from the date of closing and will be unsecured. Interest rates are based on the Eurodollar rate or Bank of America prime rate, as defined, plus applicable margins, and interest is payable quarterly. The revolving credit facility is subject to numerous terms and conditions.

The Form A indicates that the Applicants do not intend to make any material changes to the operation or management of the Safeco entities following consummation of the proposed acquisition. As part of this transaction, Safeco Corporation is required to sell approximately $225 million of the Safeco entities' investments for which readily available market prices were not available and to replace such investments with cash equal to their carrying value. Upon disposal, any proceeds in excess of the carrying value will inure to Safeco Corporation, while any shortfall in proceeds will be recovered from Safeco Corporation. Management of the Safeco entities indicated that the sale of investments has been completed, and the proceeds from such sales were approximately $1.3 million less than the recorded book value.

Standards for Approval

The Standards for approval of the Form A are set forth in the Washington Insurance Code pursuant to Title 48 RCW Chapter 31B.015(4)(a). The Commissioner must evaluate the transaction in relation to the following standards:

1) After the change of control, the domiciliary insurers must be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which they are presently licensed;
2) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in Washington or tend to create a monopoly therein;
3) The financial condition of the Applicants is such as might jeopardize the financial stability of the domiciliary insurers, or prejudice the interest of its policyholders;
4) The plans or proposals that the Applicants have to liquidate the domiciliary insurers, sell their assets, consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest;

5) The competence, experience, and integrity of those persons who would control the operation of the domiciliary insurers are such that it would not be in the interest of policyholders of the domiciliary insurers and of the public to permit the merger or other acquisition of control; and

6) The acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

Our Evaluation

RNA has completed its evaluation on the completeness of the Form A and its analysis of each of the Standards for approval which the Commissioner must use to evaluate the Form A transaction. The following is our evaluation of each of the Standards for approval as requested by you:

After the change of control, the domiciliary insurers must be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which they are presently licensed.

The Form A noted that the Applicants have no plans or proposals to liquidate the insurers, sell assets (other than the exchange of assets previously described or in the ordinary course of business), declare an extraordinary dividend or to make any other material change in the operations, corporate structure or management of the domiciliary insurers other than to make changes in members of the Board of Directors. Currently, the domiciliary insurers satisfy the requirements for licensure by the OIC including the maintenance of adequate levels of capital and surplus among other requirements. We are aware of no plans or proposals which would make the domiciliary insurers unable to satisfy the requirements for licensure by the OIC after the change in control.

Evaluation

We have found no evidence that the after the proposed change of control, the domiciliary insurers would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which they are presently licensed.

The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in Washington or tend to create a monopoly therein.

RCW 48.31B.020(3)(a) references that an acquisition is exempted from further analysis if, as an immediate result of the acquisition, (1) in no market would the combined market share of the involved insurers exceed five percent of the total market; (2) there would be no increase in any market share; or (3) in no market would the combined market share of the involved insurers exceed twelve percent of the total market, and the market share would not increase by more than two percent of the total market.

The Form A noted that the Applicants have no plans or proposals to liquidate the insurers, sell assets (other than the exchange of assets previously described or in the ordinary course of business), or to make any other material change in the operations, corporate structure or management of the domiciliary insurers other than to make changes in members of the Board of Directors.

White Mountains does not currently have a significant presence in the life insurance business in the United States or any significant presence in insurance in the State of Washington.

Evaluation

Based upon our review in accordance with RCW 48.31B.020(3)(a), it appears that the market share of the domiciliary insurers and the insurance operations of the Applicants do not meet the thresholds for additional analysis noted above. Additionally, based upon management representations noted herein, we do not believe that the effect of the proposed acquisition of control of the domiciliary insurers would be to substantially lessen competition in insurance in Washington or tend to create a monopoly therein.

The financial condition of the Applicants is such as might jeopardize the financial stability of the domiciliary insurers, or prejudice the interest of its policyholders.

The Form A states that Occum will be controlled by White Mountains by virtue of its 18.8% stake in Occum and through the holding of three of eight seats on the Occum Board of Directors. While Berkshire Hathaway will own 18.8% of Occum, and Franklin will own 11.7% of Occum common shares, Berkshire Hathaway and Franklin have filed disclaimers of affiliation with the Commissioner related to this transaction. Thus, the Form A states that White Mountains is the ultimate controlling person over Occum.

White Mountains, as consolidated ("WTM"), is a publicly held corporation and its shares are registered with the Securities Exchange Commission. WTM was originally formed in 1980 as a Delaware corporation and in 1999 became a Bermuda corporation. WTM provides property/casualty insurance and reinsurance products through four reportable segments: property/casualty insurance, reinsurance, direct marketing operations, and other operations. The property/casualty insurance segment is represented by One Beacon and includes the United States property casualty insurance operations through several insurance companies, many of which were acquired in 2001 from Aviva plc (formerly CGNU plc).

The reinsurance segment operates a reinsurance company through Folksamerica Holding Company ("Folksamerica") which was acquired in 1998. Folksamerica provides reinsurance to insurers of property/casualty risks primarily in the United States, Europe, Canada, Latin America and the Caribbean.

The direct marketing operations segment is represented by Esurance which markets personal auto insurance directly to consumers through selected on-line agents. This segment includes the management company and the underwriting results of these marketing efforts.

The other operations segment represents investments through intermediate holding companies and unallocated general and administrative costs at various holding company levels.

Evaluation As of and for the Quarter Ended March 31, 2004

For the first quarter ended March 31, 2004, WTM reported $194.1 million in comprehensive net income through strong operating results in its One Beacon and Folksamerica segments, more than doubling its comprehensive net income from the first quarter 2003. One Beacon reported pre-tax income of $142.7 million and reported a GAAP combined ratio of 96%, one point lower than in the first quarter 2003. Folksamerica also performed well, growing pretax income in the first quarter 2004 by 8.9% from pretax income in the first quarter 2003 and reporting a GAAP combined ratio of 93%, also one point lower than in the first quarter 2003. In addition, several assumption reinsurance treaties were non-renewed by Folksamerica due to unacceptable terms.

Segment results as of and for the first quarter ended March 31, 2004 show that One Beacon represents 74% of equity and revenues of WTM, while Folksamerica represents 35% of equity and 23% of revenues of WTM. Esurance represents less than one-half of 1% of equity and 4% of revenues of WTM, and other operations yields slightly negative revenue and an accumulated deficit of 8% of WTM as of and for the quarter ended March 31, 2004.

As of March 31, 2004, total WTM assets are $15.5 billion, and total equity is $3.2 billion which represents an increase of 6.7% over that as of December 31, 2003. Total outstanding debt is $825 million at March 31, 2004, and most of that debt is long-term.

Dividends are the primary source of liquidity for debt service and other holding company general and administrative expenses. According to WTM's Form 10K, WTM currently has the ability to pay $330 million in dividends from its first tier subsidiaries to its intermediate holding company without pre-approval from insurance regulators based on the first tier subsidiaries' statutory financial results as of and for the year ended December 31, 2003.

Evaluation As of and for the Year Ended December 31, 2003

For the year ended December 31, 2003, WTM reported $372.4 million in pre-tax income due to strong underwriting results in both primary underwriting segments and the continuing hard underwriting market for property/casualty insurance. This compares to pre-tax income levels of $119.4 million in 2002. One Beacon and Folksamerica GAAP combined ratios improved by nine and five points, respectively, during the year. At December 31, 2003, total consolidated assets were nearly $15 billion, and equity was $2.98 billion representing a 23.7% increase over that on December 31, 2002. Total outstanding debt is $743 million at December 31, 2003, and much of that debt is long-term. Total interest paid in 2003 was $46 million.

Loss Reserves

Historically, according to WTM's Form 10K for 2003, net loss and loss adjustment expense reserves have been inadequate based upon review of subsequent years' loss development. Over the past ten years, reserve deficiencies are shown for eight of the last ten years with the deficiency ranging from 3.6% to 15.8% after the consideration of reinsurance. Redundancy was shown in the remaining two years. One Beacon's losses for asbestos and environmental ("A&E") exposures are covered by a reinsurance agreement discussed below, and WTM states that One Beacon does not expect to experience material financial loss from such A&E exposures. Additionally, during the third quarter 2003, loss reserves for construction defect claims from commercial multi-peril and general liability policies written in the 1990's were increased by $98 million as adverse loss development continued on such business. WTM management has represented to us that the loss reserves recorded in the financial statements of WTM and its subsidiaries are based on their best estimate of the future incurred losses. We are aware of no information which contradicts this representation. While we requested the opportunity to review WTM's independent actuarial analyses, none were provided for our review.

Reinsurance on One Beacon Risks

WTM addressed concerns with regard to A&E reserves through a treaty with an unaffiliated reinsurer, National Indemnity Company ("NICO") which is ultimately owned by General Reinsurance Company, an affiliate of Berkshire Hathaway, a significant investor in Occum. NICO is rated A++ by A.M. Best. The purpose of the reinsurance agreement with NICO is to limit A&E and other discontinued operation exposures. The treaty provides $2.5 billion of reinsurance protection for all covered loss and loss adjustment expenses paid or incurred after January 1, 2000. The covered business includes loss and loss adjustment expenses from asbestos from business written by One Beacon prior to 1992, loss and loss adjustment expenses from environmental exposures prior to 1987 and certain other exposures. One Beacon estimates that on an incurred basis it has exhausted $1.7 billion of the coverage under the NICO treaty as of December 31, 2003. WTM management has represented to us that they believe that the coverage under the NICO treaty is adequate for ultimate losses covered by that treaty. We are aware of no information which contradicts this representation.

Folksamerica

Historically the Folksamerica segment loss and loss adjustment expense reserves have been inadequate based upon review of subsequent years' development on incurred losses after the consideration of reinsurance. Over the past ten years, deficiencies are shown for eight of the last ten years with the deficiency ranging from 1.3% to 19.6% after the consideration of reinsurance recoverables. Slight redundancies were shown in the remaining two years. With regard to A&E exposures, Folksamerica purchased reinsurance in 2000 from Imagine Re providing coverage of $115 million on adverse development on A&E reserves as December 31, 2000 and certain other risks. Folksamerica states that its five largest reinsurers, comprising 80% of recoverables, are rated A- or better by A.M. Best. Management has represented to us that they believe that the quality of their reinsurers is high. We are aware of no information which contradicts this representation.

A.M. Best Ratings of One Beacon and Folksamerica

In April 2004, A.M. Best affirmed the financial strength ratings of A (Excellent) of One Beacon and Folksamerica. These ratings are the third highest of fifteen rating categories. A.M. Best stated that the rating affirmations reflect WTM’s conservative financial leverage, broadened business scope, improved earnings and strong overall financial flexibility, which are offset by the inherent challenges associated with the WTM's aggressive acquisition strategy.

Combined Statutory Capital and Surplus

One Beacon and Folksamerica’s combined statutory surplus is $2.8 billion as of December 31, 2003 with combined statutory net income for the year ended December 31, 2003 of $472 million. WTM’s 10K states that all active insurance and reinsurance companies met statutory risk-based capital requirements and minimum capital and surplus requirements as of December 31, 2003. We are aware of no information which contradicts this representation.

WTM’s Leverage

Historically, WTM has used debt as leverage to pursue its acquisition strategy. As of March 31, 2004, WTM’s outstanding debt is $825 million. WTM’s debt/capital ratio is 20.6%, and its debt/equity ratio is 25.9%. Such leverage poses some additional risk, although WTM has a history of using debt effectively in conjunction with its acquisitions. Additionally, WTM has reduced its leverage substantially during the past three years. Standard & Poors has rated WTM's $700 million unsecured senior notes bearing a fixed rate of 5.9% and due in 2013 at BBB-, and Moody's Investor Service has rated the notes at Baa2 with a stable outlook. Both ratings are on the low end of the investment grade range.

WTM's Acquisitions

WTM has completed three acquisitions in last six months including the acquisition of a Scandinavian reinsurer, Sirius Insurance, in addition to the planned Form A transaction. While WTM has demonstrated improved financial results as a result of earlier acquisitions, there is a risk that additional acquisitions may be difficult to manage and integrate into current operations as considered necessary by management. Based on our discussions with White Mountains management regarding future plans for the Safeco entities, there are no plans to integrate the Safeco entities into WTM's current operations or recently acquired entities. White Mountains management have stated that they view the purchase of the Safeco entities as an investment in which they own a minority interest which will be managed as individual stand-alone entities. We are aware of no plans or other information which contradicts this representation.

Evaluation

Based upon our analyses of documentation provided to us and our discussions with the management of White Mountains, we have found no evidence that the financial condition of the Applicants might jeopardize the financial stability of the domiciliary insurers, or prejudice the interest of its policyholders.

The plans or proposals that the Applicants have to liquidate the domiciliary insurers, sell their assets, consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest.

The Form A noted that the Applicants have no plans or proposals to liquidate the insurers, sell assets (other than the exchange of assets previously described or in the ordinary course of business), or to make any other material change in the operations, corporate structure or management of the domiciliary insurers other than to make changes in members of the Board of Directors.

Based upon our review of information received, we note the following relating to the Occum's corporate structure and the future plans of the Safeco entities and White Mountains:

Occum's Corporate Structure

Credit Facility

Occum arranged a credit facility of up to $370 million. The credit facility is comprised of revolving credit commitments of up to $370 million. The revolving credit commitments available to Occum are reduced by "swing line" loan commitments of up to $20 million, and letter of credit commitments of up to $10 million, if those borrowings would be utilized. At closing, it is anticipated Occum will borrow approximately $300 million against the revolving credit facility to fund the purchase price and transaction-related expenses. Thereafter, the facility is available to finance the working capital and other general corporate purposes of Occum. There does not appear to be any immediate plans to use the available swing line or letters of credit. The credit facility is arranged though a syndicate of lenders led by Bank of America. The revolving credit facility will have a maturity date of five years from the date of closing and will be unsecured.

Borrowings under the credit facility reflect interest rates based on (1) the Eurodollar Rate plus "applicable margins" on Eurodollar loans, or (2) the higher of Bank of America's prime rate and the federal funds effective rate, plus ½ of 1%, on base rate loans. The applicable margins for the Eurodollar rate loans vary depending upon Occum's debt to capital ratio (<17.5% to ≥32.5%) and Occum's senior unsecured debt rating from Standard & Poors or Moody's Investor Service. The maximum applicable margin ranges between .40% and 1.25%. In addition, a facility fee is determined in the same manner as the applicable margin with ranges between .1% and .25%, and is payable quarterly.

The conditions precedent to the closing of the credit facility are as follows:

1) Closing the transaction in accordance with purchase agreement;
2) Minimum equity contributions of $950,000,000 by Occum investors;
3) No other indebtedness used to finance the acquisition;
4) Affirmation of A.M. Best financial strength rating of at least A- for Safeco Life Insurance Company;
5) Final execution of legal corporate approvals, legal and other opinions;
6) Payment of fees and expenses; and
7) True and correct representations and warranties.

On-going financial covenants are as follows:

1) Maintain a risk-based capital ratio, as defined by the NAIC, equal to or greater than 200% of the Company Action Level at the end of each fiscal year; and
2) Maximum consolidated debt to capitalization of Occum at the end of each fiscal quarter shall not exceed 37.5%. Further, the consolidated debt, as defined, shall include certain preferred securities and/or convertible securities outstanding at the end of each fiscal quarter.

Based upon our review of pro-forma financial information, Occum's only asset, other than a minimal amount of cash, will be its investment in the Safeco entities. Thus, Occum must rely on dividends from the Safeco entities to make the required debt service payments. Debt service requirements are payments of interest only until the facility terminates in five years. The pro-forma financial information assumes the interest rate on the debt will be 6% for the entire term of the loan yielding an annual interest expense of $18 million. The interest rate assumption appears reasonable and conservative based upon current contractual rates which would be 2.35% using current LIBOR rates. Further, management estimates it could lock in a five year interest rate of 4.85% using a standard interest rate SWAP agreement.

The pro-forma financial information demonstrates the domiciliary insurers will maintain risk-based capital ratios between 344% and 396% of Company Action Level for the years ending 2004 through 2008 using current NAIC risk-based capital formulae. In addition, Occum's debt to capitalization ratio is projected to remain below 22.2% for the same period. Thus, the pro-forma financial information indicates that the on-going debt covenants reasonably can be expected to be maintained.

The Safeco Entities' Dividend Capacity

The pro-forma financial information projects annual dividends from the Safeco entities to Occum of $20 million in 2004, and $40 million in each succeeding year from 2005 though 2008. Management indicated the source of all expected dividends is from Safeco Life Insurance Company ("Safeco Life"). Our discussions with management indicated, however, that they anticipate dividends from Safeco Life for debt interest only which are not expected to exceed $18 million annually. We note that Safeco Life filed a required notice with the OIC of a stockholders' dividend of $64.3 million declared on June 30, 2004. Title 48 RCW Chapter 31B.030(2)(b) defines an "extraordinary dividend" as the "greater of ten percent of the company's surplus as regards policyholders as of the previous 31st day of December; or the net gain from operations of the company if the company is a life insurance company." Extraordinary dividends require the prior approval of the OIC before they can be paid. The declared dividend is within the Washington statutory definition and limit for an "ordinary dividend." Thus, its payment does not require prior approval of the OIC.

The pro-forma financial information projects Safeco Life's statutory net income to be $66 million for the six months ended December 31, 2004 and $140 million, $155 million, $171 million, and $188 million for the years ended 2005 through 2008, respectively. Surplus as regards policyholders is projected to be $1,196 million, $1,296 million, $1,411 million, $1,542 million, and $1,689 million as of December 31, 2004 through 2008, respectively. The Applicants represented to us that Occum's sole function is to be a holding company for its investment in the Safeco entities and that there are no present plans for Occum to acquire other entities or plans for it to function as an operating business. Based upon the projected net income and surplus amounts from 2004 through 2008, and the 6% interest expense on borrowings, Safeco Life has the capacity to pay ordinary dividends to Occum such that Occum will have the ability to service the $300 million debt with an interest coverage ratio varying between 7.3 and 10.1, using statutory accounting principles, and between 14.6 and 19.7, using GAAP.

In addition to the dividends from Safeco Life, management indicated approximately $40 million of distributable assets (mostly cash and liquid securities) are available from non-insurer subsidiaries. However, the pro-forma financial information does not anticipate such a distribution.

The pro-forma financial information does not reflect any principal repayment on the $300 million in borrowings. The principal will be in due upon termination of the credit agreement in 2009 which is beyond the period of the pro-forma financial information provided to us. Based upon inquiry of management of the Safeco entities and the Applicants, the borrowings will be refinanced on a long-term basis or repaid from new sources of capital. Principal is not expected to be repaid out of dividends from the Safeco entities.

Future Plans

The Safeco entities

RNA interviewed management of Occum and the Safeco entities regarding the future plans for the domiciliary insurers. The pro-forma financial information we received relative to the Form A transaction was substantially a forward progression of recent historical results. We noted a formal business plan for the Safeco entities describing and including post-closing financial projections and operating assumptions either has not yet been developed, or was not made available to us. Since the Safeco entities' management and employees are expected to remain in place, and the Applicant has indicated no intention to make significant changes to the Safeco entities operations, we reviewed the pro-forma financial information based on those representations. Additionally, we reviewed the Goldman Sachs fairness opinion rendered on behalf of Safeco Corporation.

Although two rating agencies have downgraded the financial strength of Safeco Life during the past year, Safeco Life's management indicated preliminary reaction to the publicly announced transaction from key constituencies including rating agencies, employees, policyholders, agents, and third-party financial institutions with selling agreements has been generally positive. The Safeco entities do not rely on the Safeco property/casualty agency force for a material portion of sales or distribution. Moreover, these agency relationships are expected to continue after the sale. As such, the loss of any Safeco "brand" identity is not expected to have a significant impact on the Safeco entities after the change in control.

We noted the only planned changes to the future operations of the Safeco entities, which are known at this time, relate to investment portfolio management and general and administrative expenses. The investment portfolio will be managed by affiliates of the Applicants who provide similar services to other WTM subsidiary insurers. Management represented to us that they may enter into a tax sharing agreement with one or more of the affiliates of the Applicants, and stated that they were aware of the requirements to file this and other such affiliated agreements with the OIC for prior approval as required by Title 48 RCW Chapter 31B.030(1)(b)(iv). Many general and administrative expenses are currently provided by Safeco Corporation and its affiliates through shared service agreements. Safeco Life's audited financial statements disclosed that $39.8 million and $28.6 million of such shared expenses were paid to affiliates in 2003 and 2002, respectively. Additionally, management represented to us that change in control agreements with three officers are likely to be executed.

As a result of the Safeco entities becoming a stand-alone entity, a Transition Services Agreement has been negotiated between Safeco Corporation and Occum to ensure that Safeco Corporation will continue to provide certain agreed-upon services at negotiated prices to Safeco Life. The Transition Services Agreement is extensive and covers a broad array of administrative functions such as investment accounting, financial accounting, printing, telecommunications, and information technology. The Transition Services Agreement is for a maximum of one year following closing, although Occum may terminate portions of the agreement early for specific services with required notice. We also noted that a number of general and administrative functions are performed by Safeco Life's full-time dedicated staff who will remain with Safeco Life. However, many of these functions are also partially provided by other Safeco Corporation entities through shared service arrangements, which include legal, human resources, finance, marketing, government affairs, community relations, and cash management. In all of these areas, Safeco Life will need to replace the portion of the services provided by other Safeco Corporation entities or eliminate them. As a result, Safeco Life management stated that they estimate 50 additional full-time positions will be created at Safeco Life after the change in control to replace services previously obtained from Safeco Corporation affiliates.

Safeco Life management prepared an analysis of expected costs savings as a results of eliminating or replacing services which were provided by Safeco Corporation entities. In addition, the analysis included areas where management believes direct costs savings can be achieved. The analysis showed that 2003 charges from Safeco Corporation allocated to Safeco Life for shared services were approximately $42.2 million, and 2003 direct expenses were approximately $19.4 million, with anticipated savings of $20.2 million. Thus, on an annualized basis, management expects to reduce the relevant costs from approximately $61.6 million to $41.4 million.

Based on our discussions with Safeco Life management, we noted the anticipated savings analysis was prepared in February 2004 and is currently being refined and further developed as the expected transition and closing approaches. Management indicated a detailed build up and analysis was prepared to determine the anticipated savings. We did not review or analyze any detail supporting the savings estimates. We did note that management has been able to obtain bids for corporate insurance. Future rent also can be reasonably predicted. However, several significant areas of uncertainty remain such as the estimated costs for information technology services. We also noted additional costs, such as the need to hire new Chief Financial Officer were not quantified in the above summarized analysis. Finally, we observe that achieving the savings will depend upon management's ability to execute its transition in a controlled and timely manner.

Safeco entities management and the Applicant represented that all pro-forma financial information provided to us was developed assuming no significant changes in products, distribution channels, benefit costs, commission costs, investment approach and expected returns. The anticipated general and administrative costs savings noted above were incorporated in the pro-forma financial information we received. We also note that if the general and administrative costs savings are not realized, Safeco Life would remain profitable.

White Mountains

WTM has completed three acquisitions in last six months including the acquisition of a Scandinavian reinsurer, Sirius Insurance, in addition to the planned Form A transaction. While WTM has demonstrated improved financial results as a result of earlier acquisitions, there is a risk that additional acquisitions may be difficult to manage and integrate into current operations as considered necessary by management. Based on our discussions with White Mountains management regarding future plans for the Safeco entities, there are no plans to integrate the Safeco entities into WTM's current operations or recently acquired entities. White Mountains management have stated that they view the purchase of the Safeco entities as an investment in which they own a minority interest which will be managed as individual stand-alone entities. We are aware of no plans or other information which contradicts this representation.

Evaluation

Based upon our observations, discussions with management of the Applicants and the Safeco entities, analysis of available pro-forma financial information and other documents, and our professional judgment, we noted no evidence of plans or proposals that the Applicants have to liquidate the insurers, sell their assets, consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management, that are unfair and unreasonable to the insurers' policyholders and not in the public interest.

The competence, experience, and integrity of those persons who would control the operation of the domiciliary insurers are such that it would not be in the interest of policyholders of the domiciliary insurers and of the public to permit the merger or other acquisition of control.

Key management personnel of the Safeco entities, including the President and CEO, Executive Vice President and General Counsel are expected to remain at the Safeco entities and will operate the companies after the change in control. We also noted that David Foy, Chief Financial Officer of White Mountains, is a Fellow in the Society of Actuaries and brings considerable life insurance experience to Occum's Board of Directors. Based upon our discussions with management of the Safeco entities regarding future plans, we did not note any significant planned decreases in employment levels. We have received and reviewed biographical information on all key officers and directors of Occum, the Safeco entities, and White Mountains. All are experienced in the insurance industry and appear to have the necessary qualifications to operate the Safeco entities.

Evaluation

We have found no evidence that the proposed officers and directors would not act in the best interest of the policyholders and the public.

The acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

In addition to the financial and corporate structure analyses previously commented upon, RNA discussed future plans with management of the Safeco entities and the Applicant with respect to policyholder market conduct areas such as marketing and sales, policyholder service, complaint handling, producer licensing, underwriting and rating, and claims. As previously stated, there are no immediate plans to change the management or operations of the Safeco entities or domiciliary insurers. The primary purpose of the transaction is for an investment by the Occum shareholders which they hope will create shareholder value. In today's highly competitive life insurance and asset management environment, consumers will continue to demand new products and distribution coupled with strong financial performance and ratings. Thus, executing a sound business strategy while also transitioning to a stand-alone operating entity will pose a challenge for the Safeco entities. In our view, the greatest risk resulting from the proposed transaction is a disruption to policyholder service, service to distributors, or a decline in customer satisfaction resulting from unforeseen operating problems during the transition period. It appears that management of the Safeco entities is aware of such risks and is taking steps to mitigate those risks through transition planning.

As with any corporate transaction or restructuring involving insurers, there are risks to the insurance buying public; however, we believe the proposed transaction is likely a positive one for the insurance buying public. The Safeco entities will continue to operate as one entity based in the state of Washington. As a stand-alone entity, management's focus will be directed solely on the operation of the life insurance, annuity, health insurance and asset management businesses. Further, the core business operations will remain centralized with experienced management providing continuity to policyholders, employees and distributors. The Safeco entities will also have a financially strong parent. Moreover, White Mountains brings considerable turn-around and insurance industry experience to Occum's management and Board of Directors.

Evaluation

Based upon the factors described above and in other sections of this report, we found no evidence to suggest the acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

Recommendations

The proposed acquisition of the Safeco entities by the Applicants creates a financial holding company with a diverse set of interested parties including shareholders, lenders and policyholders and new challenges for management in the life and health insurance business. We recommend the OIC closely monitor the operations and financial results of the domiciliary insurers and consider requiring the domiciliary insurers' management to provide the OIC with the following:

- Within 30 days after the closing adjustments in connection with the Form A transaction have been determined, a summary of the adjustments including the "Post Closing Adjustment Amount" as defined in Section 1.4(f) of the Stock Purchase Agreement and the manner in which such amounts will be satisfied. In addition, the audited financial statements prepared by Ernst &Young LLP as of June 30, 2004 should also be filed with the OIC;

- Within 120 days after closing of the Form A transaction, a strategic plan including general initiatives, goals and future plans along with the procedures used to measure and monitor progress against the plan. Such plan should include a full set of projected financial statements with detailed assumptions to allow the OIC to fully understand the domiciliary insurers' operations. Assumptions should address the following:
    - Revenue projections
    - Growth expectations
    - Line of business/product mix
    - Distribution channels/commission expense
    - Benefit and claims costs
    - Administrative costs and expenses including separate disclosure of administrative cost structure changes related to the transition services agreement
    - Investment returns
    - Expected dividends to Occum;
- Quarterly throughout 2004 and 2005, a summary of the utilization of the services under the Transition Services Agreement and specific detail on plans and costs to separate all such services from Safeco Corporation with particular attention to information technology services;
- An analysis of expected transition cost reductions and the effect of those cost reductions on policyholder services including information on the domiciliary insurers' key policyholder service benchmarks and goals along with the domiciliary insurers' progress against those benchmarks and goals; and
- An annual analysis of the debt service activity within Occum and a summary of compliance with related debt covenants.

Additionally, once a new Chief Financial Officer is named, the individual should meet with the OIC's key solvency regulators to ensure that this critical regulatory relationship is established timely.